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**Economic and environmental questions:
sustainable development****Formulating a smooth transition strategy for countries
graduating from least developed country status****Report of the Secretary-General***Summary*

Graduation from the least developed country category reflects a country's success in its development and in its ability to achieve a transformation of its economy. Support by development partners — in the form of trade preferences, official development assistance and technical cooperation — has often played a role in achieving that success. A continued element of support for an adequate period — a "smooth transition" — is thus likely to be critical for the continued development of graduated countries. Since graduation is likely to present different countries with different challenges, individual strategies need to be attuned to different country circumstances and should therefore be formulated by the graduated country itself, in collaboration with its development partners. A smooth transition strategy for graduated least developed countries should relate to actions to be taken domestically but should also address the possibility that benefits available to least developed countries may be reduced for a country upon graduation. The major benefits associated with least developed country status vary among donors but a continuation of some trade-related preferences could be important for some graduated countries. Many trade benefits, however, are governed by intergovernmental rules established by the World Trade Organization. The Economic and Social Council may wish to invite development partners, particularly the membership of the World Trade Organization, to give favourable consideration to the recommendations made in the present report.



Contents

	<i>Paragraphs</i>	<i>Page</i>
Introduction	1-5	3
I. Benefits associated with least developed country status	6-37	4
A. Preferential market access	8-13	5
B. Special treatment regarding World Trade Organization-related obligations	14-29	8
C. Development financing	30-33	12
D. Technical cooperation	34-37	15
II. General principles for the preparation of a smooth transition strategy	38-48	15
III. Possible elements for a smooth transition strategy	49-68	18
A. Preferential market access	51-54	18
B. Special treatment regarding World Trade Organization-related obligations	55-64	19
C. Development financing	65-66	22
D. Technical cooperation	67-68	22
IV. Concluding remarks	69-73	22

Introduction

1. In its resolution 2004/3 of 3 June 2004, the Economic and Social Council requested the Secretary-General, in consultation with Member States, to submit to the Council at its substantive session of 2004, a report including recommendations on how to formulate a smooth transition strategy for countries graduating from least developed country status. The resolution also requested the Secretary-General to prepare the report in an inclusive and transparent manner with the involvement of Member States, in particular the least developed countries, as well as bilateral and multilateral donors and relevant international organizations.

2. The present report responds to that request, taking into account the recommendations made by the Committee for Development Policy at its sixth session,¹ information provided to the Committee by a number of international organizations,² and information provided by Governments following the adoption of Economic and Social Council resolution 2004/3.³

3. This report also builds upon the Secretariat's ongoing work dating back to the preparation of a previous report of the Secretary-General on ensuring a smooth transition of countries graduating from least developed country status, submitted to the Economic and Social Council at its substantive session of 2001 (E/2001/94 and Corr.1). That report concluded, *inter alia*, that the Secretariat had received insufficient information required to make recommendations on additional measures that could be taken to ensure a smooth transition for graduated countries. Following a review of that report, the Council, in its resolution 2001/43 of 24 October 2001, called upon development partners and multilateral organizations to make available to the Committee for Development Policy the relevant information on their likely response to a country's graduation, before the fourth session of the Committee in 2002.

4. In response to Economic and Social Council resolution 2001/43, the Under-Secretary-General for Economic and Social Affairs sent a letter, dated 16 January 2002, to the Governments of countries members of the Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), requesting inputs on their likely response to a country's graduation from the list of least developed countries. The replies to this request are contained in the report of

¹ See *Official Records of the Economic and Social Council, 2004, Supplement No. 13 (E/2004/33)*.

² The Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Bank, the World Trade Organization, and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC). See, in particular, the note by UNCTAD entitled "An overview of desirable 'smooth transition' modalities for countries graduating from least developed country status", available from <http://www.un.org/esa/analysis/devplan/index.html>. Path: Background Papers of the sixth session (accessed 14 July 2004).

³ As of 15 July 2004, the Secretariat had received six replies to a letter sent to all Permanent Missions by the Secretariat on 9 June 2004. Three replies — those of Benin (on behalf of 50 least developed countries), Canada, and Ireland (on behalf of 25 States Members of the United Nations that are members of the European Union) — thus represented the views of 76 Member States. There were also replies from three least developed countries that either qualify or are eligible for graduation (Cape Verde, Maldives and Samoa). These replies are available from <http://www.un.org/esa/analysis/devplan/index.html> (accessed 15 July 2004).

the Committee for Development Policy on its fourth session.⁴ The Committee took note of this information during its triennial review of the list of least developed countries in 2003.

5. Subsequently, in its resolution 2002/36 of 26 July 2002, the Economic and Social Council urged the international organizations, bilateral donors and graduating or near-graduating countries to continue the debate concerning the treatment of graduating countries with a view to ensuring that the graduation of a country from the list of least developed countries should not result in disruption to its development plans, programmes and projects and the importance of ensuring a smooth transition from least developed country status for countries that became eligible for graduation. In response to both that resolution and Council decision 2003/281 of 24 July 2003, in which the Council requested the Secretary-General to provide the necessary technical support to the Council regarding the 2003 review by the Committee for Development Policy of the list of least developed countries, the Secretary of the Committee wrote a letter, dated 19 September 2003, to the Governments of OECD/DAC countries requesting further information on benefits currently available to least developed countries, which might be at risk of being withdrawn if a country was to graduate from the least developed country category.⁵

I. Benefits associated with least developed country status

6. Development partners provide a variety of benefits to least developed countries because of their designation as least developed countries. There is some apprehension that, if these benefits were to be withdrawn immediately upon graduation, there would be a disruption of the development prospects of the graduated country. It is to avoid such a possibility that there is a need for a smooth transition strategy. In order to devise such a strategy, it is necessary to identify the benefits that countries receive as a result of their least developed country status, and that they may lose as a result of graduation.

7. The major benefits associated with least developed country status vary among donors and are mostly related to trade preferences and the volume of official development assistance (ODA). They fall into four main areas: (a) preferential market access; (b) special treatment regarding World Trade Organization-related obligations; (c) ODA and other forms of development financing; and (d) technical cooperation and other forms of assistance, including financial support for the participation of representatives of Governments of least developed countries in some United Nations meetings.

⁴ See *Official Records of the Economic and Social Council, 2002, Supplement No. 33 (E/2002/33)*, annex I. The Secretariat received replies from 10 development partners — Canada, Finland, France, Germany, Italy, Netherlands, New Zealand, Norway, United Kingdom of Great Britain and Northern Ireland and United States of America — to letters sent to representatives of 22 OECD/DAC countries in January 2002 and September 2003.

⁵ Only one Member State (Germany) replied to this request, stating that the German Government maintained the position indicated in the reply to the previous letter, dated 16 January 2002.

A. Preferential market access

1. General schemes

8. Market access preferences entitle exporters from least developed countries to pay lower tariffs or to have duty- and quota-free access to developed and developing countries' markets.⁶ These non-reciprocal preferences are granted under two general preferential schemes: (a) the Generalized System of Preferences (GSP), involving either total or near-total product coverage for all least developed countries⁷ or partial product coverage for all least developed countries;⁸ and (b) the Global System of Trade Preferences (GSTP), involving either all least developed countries or selected least developed countries.⁹ There are also initiatives by some trading partners involving special preferences either for all least developed countries or for those in specific regions. For example, India grants market access preferences under the Agreement on SAARC Preferential Trading Arrangement (SAPTA) to least developed country members of the South Asian Association for Regional Cooperation (SAARC).

9. However, with the general trend towards freer trade and erosion of trade preferences for all developing countries, least developed country benefits will gradually dissipate as trade barriers for all developing countries fall. In addition, market access preferences granted to least developed countries often contain critical exceptions. This is notably so in the case of those granted by the Quad countries — Canada, the members of the European Union (EU), Japan and the United States of America. For example, the EU "Everything but Arms" initiative (EBA)¹⁰ contains temporary exceptions of potential importance to least developed countries: bananas, rice and sugar. Canada maintains similar restrictions on dairy products and poultry; Japan, on a range of agricultural products; and the United States of America, on textiles and apparel.

10. Nonetheless, available data show that Quad countries' total imports from least developed countries more than doubled between 1996 and 2001 — even with relatively low rates of utilization of market access preferences¹¹ (see figure). Furthermore, total exports of least developed countries to Quad countries — notably

⁶ For a comprehensive list of preferential market access schemes targeting least developed countries — by both developed and developing countries — see the United Nations Conference on Trade and Development (UNCTAD), *The Least Developed Countries Report 2004* (United Nations publication, Sales No. E.04.II.D.27), tables 48 and 49.

⁷ According to the latest available information, this modality of GSP is granted by Australia, Canada, Czech Republic, Hungary, Iceland, Japan, New Zealand, Norway, Poland, Slovakia, Slovenia and Switzerland, as well as the European Union, notably with regard to its "Everything but Arms" initiative (EBA).

⁸ Granted by Bulgaria, Mauritius, the Republic of Korea, Singapore, Thailand, Turkey and the United States.

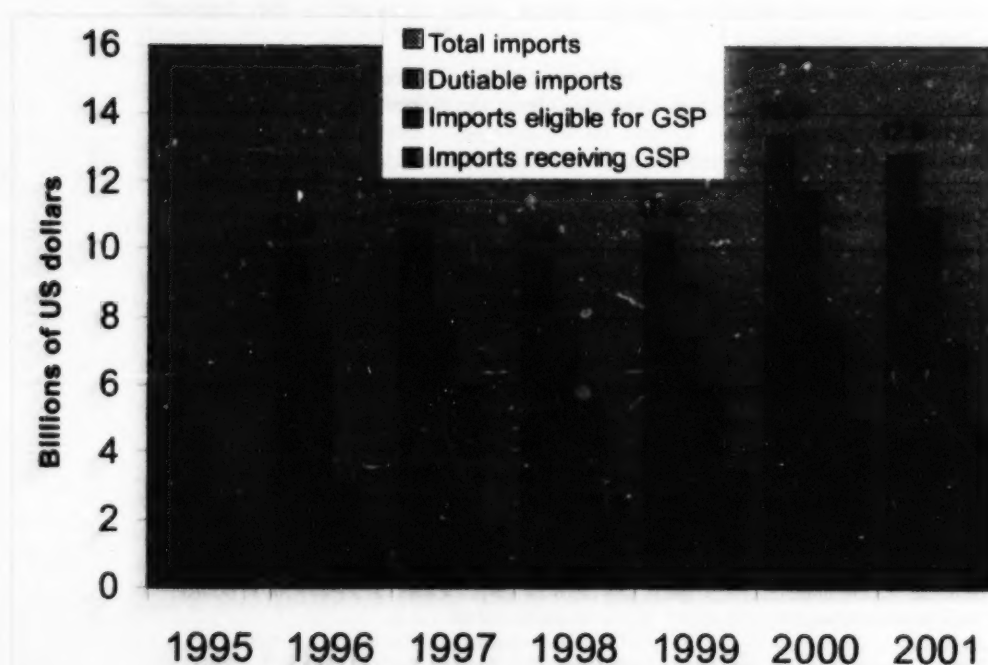
⁹ Granted by Argentina (all products); Egypt (selected products); and India (selected products for selected least developed countries).

¹⁰ EBA, introduced in 2001, grants duty- and quota-free access to exports from all least developed countries (with the permanent exception of arms and ammunition).

¹¹ The most important obstacles to the full utilization of trade preferences include supply-side constraints, rules of origin restrictions, non-tariff barriers — such as complying with product standards, sanitary measures and eco-labelling — and subsidies in developed countries (see UNCTAD, *Trade Preferences for least developed countries: An Early Assessment of Benefits and Possible Improvements* (document UNCTAD/ITCD/TSB/2003/8)).

Japan and Canada — increased more rapidly than exports from other developing countries between 2001 and 2002 (see table 1), although part of that increase is attributed to greater rates of utilization of market preferences (see figure). If least developed countries (including candidates for graduation) took measures to deal with capacity constraints, they could take greater advantage of existing preferential market access schemes. Moreover, this positive trend may be further stimulated by the expansion of existing preferential market access schemes for least developed countries or the introduction of new ones. There were, for example, expansions of product coverage in Canada's least developed country GSP scheme in 2002 and 2003 and in Japan's least developed country GSP scheme in 2001-2002 and 2003.

Imports and effectiveness of market access preferences, granted through the Generalized System of Preferences (GSP), of Quad countries for least developed countries, 1995-2001



Source: UN/DESA, based on UNCTAD, *The Least Developed Countries Report 2004* (United Nations publication, Sales No. E.04.II.D.27), table 51.

11. The graduation of a country from the least developed country category (regardless of whether the graduated country is a State member of the World Trade Organization) might legally require or be expected to prompt trading partners to change their preferential treatment for least developed countries to the (usually less advantageous) treatment granted to other developing countries under GSP/GSTP schemes, or to most favoured nation (MFN) treatment, that is to say, treatment based on the principle of not discriminating between trading partners.

Table 1
Quad countries' merchandise imports from least developed countries and other developing countries, 1992-2002

Quad importer	LDC ^a /ODC ^b exporter	Share of total imports (percentage)		Percentage change over previous year				
		1992	2002	1998	1999	2000	2001	2002
Canada	LDC	0.2	0.2	-2.7	-12.5	12.6	35.3	11.3
	ODC	12.5	17.4	-3.0	-4.5	12.0	2.1	7.4
European Union	LDC	0.5	0.6	-3.0	-24.2	9.5	14.0	1.9
	ODC	13.9	16.5	-0.2	4.4	11.5	-1.4	-1.3
Japan	LDC	0.5	0.4	-4.9	-1.1	-1.1	-3.1	39.2
	ODC	49.7	59.4	-1.3	1.5	9.3	0.4	1.0
United States	LDC	0.8	0.8	0.6	-14.8	14.5	7.5	-4.1
	ODC	40.3	47.2	-4.4	6.2	4.2	-0.5	2.9

Source: UNCTAD, *The Least Developed Countries Report 2004* (United Nations publication, Sales No. E.04.II.D.27), table 50.

^a Least developed country.

^b Developing country other than a least developed country.

2. Textiles and clothing

12. Since 1995, international trade in textiles has been governed by the World Trade Organization Agreement on Textiles and Clothing.¹² By allowing quotas, this Agreement conflicts with the General Agreement on Tariffs and Trade (GATT)/World Trade Organization general preference for customs tariffs instead of quantitative restrictions. Trade in textiles regulated under the Agreement on Textiles and Clothing also includes exceptions to the MFN principle of treating all trading partners equally because of provisions specifying how much each importing country can accept from individual exporting countries. While most countries have faced relatively high import barriers to their textile exports, some least developed countries — notably in Asia — have benefited from preferential market access in textile products.

13. Textiles and clothing products are, however, being gradually returned to GATT/World Trade Organization rules over a 10-year period as a result of the Uruguay Round of multilateral trade negotiations, and the Agreement on Textiles and Clothing itself will no longer exist after 1 January 2005. This will involve the elimination by that date of both quantitative restrictions and the ability of importing countries to discriminate among exporters. The overall impact of the elimination of import quotas and the preferential advantages of least developed countries will "be determined by whether the provision of unilaterally granted market access preferences for least developed countries can balance the negative effects of the phasing out of the Agreement on Textiles and Clothing".¹³

¹² See *Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-7). Also available from http://www.wto.org/english/tratop_e/texti_e/texti_e.htm (accessed 15 July 2004).

¹³ See *The Least Developed Countries Report 2004* ..., box 14, fourth paragraph.

B. Special treatment regarding World Trade Organization-related obligations

14. Different World Trade Organization Agreements contain nearly 150 separate articles or paragraphs with provisions for special and differential treatment for developing countries: about 100 of those articles are applicable to all developing countries and the remainder apply to different subgroups of developing countries. There are over 20 articles that extend special and differential treatment explicitly to least developed countries.

15. Least developed countries that are already World Trade Organization member States¹⁴ enjoy exemptions or special consideration regarding the implementation of World Trade Organization agreements in the following eight areas: accession to the World Trade Organization; sanitary and phytosanitary measures; technical barriers to trade; subsidies and countervailing measures; trade in services; trade-related aspects of intellectual property rights; settlement of disputes; and trade policy reviews. Unlike broad GSP or GSTP schemes, these types of special treatment are available to least developed countries because of their membership of the World Trade Organization. Least developed countries (and graduated least developed countries) that are not already members of the World Trade Organization have to negotiate their accession, including their eligibility for these exemptions or special consideration.

1. Accession to the World Trade Organization

16. Every accession process is a negotiation between the acceding country and interested World Trade Organization members; and this being the case, like all other World Trade Organization-related commitments, special and differential treatment is discussed between acceding Governments and members on a case-by-case basis. In the light of the greater difficulties faced by acceding least developed countries in respect of putting in place World Trade Organization-compliant rules and regulations, in the Ministerial Declaration of the Fourth Ministerial Conference of the World Trade Organization, held at Doha from 9 to 13 November 2001 (Doha Declaration),¹⁵ the Ministerial Conference recognized "that the integration of the least developed countries into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base, and trade-related technical assistance and capacity-building" and agreed "to work to facilitate and accelerate negotiations with acceding least developed countries" (para. 42). There are currently eight least developed countries in the process of acceding to the World Trade Organization: Bhutan, Cape Verde, Ethiopia, the Lao People's Democratic Republic, Samoa, the Sudan, Vanuatu and Yemen.

17. The General Council of the World Trade Organization adopted guidelines for facilitating and accelerating negotiations with acceding least developed countries in December 2002. At present, the guidelines include: (a) the exercise of restraint by World Trade Organization members in seeking excessive concessions from acceding

¹⁴ Thirty-one of the 50 least developed countries are member States of the World Trade Organization. Another 11 least developed countries are Observers and, according to World Trade Organization rules, must start accession negotiations within five years of having become Observers.

¹⁵ A/C.2/56/7, annex, available from http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm (accessed 14 July 2004).

least developed countries, notably those incompatible with their individual development, financial and trade needs; (b) the granting of transitional periods to enable acceding least developed countries to effectively implement commitments and obligations; (c) the provision of technical assistance by World Trade Organization member States on a priority basis to cover all stages of the process of accession by a least developed country; and (d) the provision of technical assistance on accession procedures by the World Trade Organization secretariat, upon request.¹⁶

18. These guidelines have proved to be important in facilitating and accelerating the accession of least developed countries to the World Trade Organization and have led to more flexibility in the granting of transition periods to acceding least developed countries. Cambodia and Nepal, for example, which completed their accession process in 2003, have both been granted transition periods of from three to five years for the implementation of several World Trade Organization agreements.

2. Sanitary and phytosanitary measures

19. Members of the World Trade Organization have the right to take sanitary and phytosanitary measures necessary for the protection of human, animal or plant life or health, provided that such measures are consistent with the provisions of the World Trade Organization Agreement on the Application of Sanitary and Phytosanitary Measures, which is broadly aimed at precluding disguised restrictions on international trade.¹⁷ The Agreement requires that World Trade Organization members take account of the special needs of developing-country members and, in particular, of least developed country members, that may encounter special difficulties in complying with the sanitary or phytosanitary measures of importing members — and, as a consequence, in achieving access to markets — and also in the formulation and application of sanitary or phytosanitary measures in their own territories.

20. Least developed country members of the World Trade Organization had been allowed to delay the application of the provisions of the Agreement on the Application of Sanitary and Phytosanitary Measures related to imported products for a period of five years. This period ended on 1 January 2000. Developing countries were granted a transition period of two years ending on 1 January 1997. For acceding countries, including least developed countries, there is no predetermined transition period for implementing the provisions of the Agreement. During accession negotiations, such arrangements are agreed upon on a case-by-case basis, taking into account the needs and constraints of the country concerned. As mentioned above, the General Council guidelines regarding the accession of least developed countries call for the granting of transitional periods.

3. Technical barriers to trade

21. The World Trade Organization Agreement on Technical Barriers to Trade covers technical regulations, standards and procedures to ensure that they do not create unnecessary obstacles to international trade.¹⁸ The Agreement, recognizes,

¹⁶ See document WT/COMTD/LDC/12 of 5 December 2002.

¹⁷ The full text of the Agreement is available from http://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm (accessed 14 July 2004).

¹⁸ The full text of the Agreement on Technical Barriers to Trade is available from http://www.wto.org/english/tratop_e/tbt_e/tbtagr_e.htm (accessed 15 July 2004).

however, that developing-country members, in particular least developed countries, may face special problems, including institutional and infrastructural problems, in the preparation and application of technical regulations and standards.

22. The Agreement on Technical Barriers to Trade thus calls upon World Trade Organization members to provide technical assistance in the preparation and application of technical regulations to developing-country members, taking into account the stage of development of the requesting members and, in particular, of least developed country members. In addition, the World Trade Organization Committee on Technical Barriers to Trade is entitled to grant, upon request, specified time-limited exemptions from obligations under the Agreement, taking into account the special problems of least developed country members.

4. Subsidies and countervailing measures

23. The World Trade Organization Agreement on Subsidies and Countervailing Measures establishes basic rules on the use of subsidies and regulates the actions World Trade Organization members can take to counter the effects of subsidies.¹⁹ The Agreement stipulates that a World Trade Organization member State can use the World Trade Organization dispute-settlement machinery to seek the withdrawal of a subsidy or the removal of its adverse effects. In addition, any World Trade Organization member State can launch its own investigation and ultimately charge a countervailing duty on subsidized imports that have harmed domestic producers.

24. The Agreement on Subsidies and Countervailing Measures recognizes three categories of developing-country members: least developed countries; other World Trade Organization members with a gross national product (GNP) per capita of less than US\$ 1,000 per year; and other developing countries. The lower the stage of development of the World Trade Organization member State, the more favourable the treatment it receives with respect to the Agreement's obligations on subsidies. Least developed countries and World Trade Organization members with a GNP per capita of less than \$1,000 per year are exempt from the prohibition on export subsidies, but other developing-country members have an eight-year period to phase out their export subsidies. As regards countervailing measures, exporters from developing countries — including least developed countries — are entitled to more favourable treatment with respect to the termination of investigations in cases where the level of subsidization or volume of imports is small.

5. Trade in services

25. The World Trade Organization General Agreement on Trade in Services²⁰ calls for the increasing participation of developing-country members in world trade — to be facilitated through negotiated specific commitments — with special priority to be given to least developed countries. The Agreement also stresses that "(p)articular account shall be taken of the serious difficulty of the least developed countries in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs".²¹ In addition, the

¹⁹ The full text of the Agreement on Subsidies and Countervailing Measures is available from http://www.wto.org/english/tratop_e/scm_e/subs_e.htm (accessed 15 July 2004).

²⁰ The full text of the General Agreement on Trade in Services is available from http://www.wto.org/english/tratop_e/serv_e/gatsintr_e.htm (accessed 14 July 2004).

²¹ See article IV.3.

Agreement calls upon all World Trade Organization members to give special consideration to efforts made by least developed country members to encourage foreign suppliers of telecommunications services to assist in the transfer of technology, training and other activities that support the development of their telecommunications infrastructure and expansion of their telecommunications services trade.

6. Trade-related aspects of intellectual property rights

26. The World Trade Organization recognizes the special interest of least developed countries in obtaining maximum flexibility in the implementation of domestic regulations aimed at creating a sound technological base. Least developed countries have thus been granted a delay of 11 years in implementing most obligations in respect of trade-related aspects of intellectual property rights. Extensions shall be accorded following a "duly motivated request". The World Trade Organization has also decided that the obligations of least developed country members relating to patents and undisclosed information and under paragraph 9 of article 70 of the Agreement on Trade-related Aspect of Intellectual Property Rights²² shall not apply with respect to pharmaceutical products until 1 January 2016.²³ In addition, developed-country members of the World Trade Organization are required to provide incentives to enterprises and institutions in their territories for the purpose of encouraging technology transfers to least developed countries. The World Trade Organization has adopted a system for monitoring compliance with this obligation.²⁴

27. In the Doha-related work on outstanding implementation issues, least developed countries have proposed that the transition period granted to them with respect to applying the provisions of the Agreement on Trade-related Aspects of Intellectual Property Rights²² be extended as long as they retain their least developed country status.

7. Settlement of disputes

28. "Particular consideration" of the special situation of least developed country members is given at all stages of the determination of the causes of a dispute and of dispute settlement procedures involving a least developed country member. World Trade Organization members are also to "exercise due restraint" in raising matters under the dispute settlement procedures involving a least developed country member, and in seeking compensation or authorization to suspend concessions if nullification or impairment results from a measure taken by a least developed country member. In disputes involving a least developed country member, where consultations have not led to a satisfactory solution, the Director-General of the World Trade Organization or the Chairperson of the Dispute Settlement Body shall offer his or her "good offices", conciliation and mediation upon request by a least developed country member, with a view to assisting the parties in finding an acceptable solution.

²² The full text of the Agreement on Trade-related Aspects of Intellectual Property Rights is available from http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm (accessed July 2004).

²³ See World Trade Organization documents IP/C/25 of 1 July 2002 and WT/L/478 of 12 July 2002.

²⁴ Document IP/C/28 of 20 February 2003.

8. Trade policy review mechanism

29. Least developed countries enjoy a good deal of flexibility with regard to the obligation to carry out a periodic trade policy review, and particular attention has been given by the World Trade Organization Secretariat to requests from least developed countries for technical assistance in undertaking these reviews.²⁵

C. Development financing

1. Bilateral assistance

30. Benefits in the area of bilateral development financing usually involve voluntary commitments made by developed countries. In the Brussels Declaration (A/CONF.191/12) and Programme of Action for the Least Developed Countries for the Decade 2001-2010 (A/CONF.191/11),²⁶ donor countries that had previously pledged to reach the target of 0.15 per cent of gross national product (GNP) as official development assistance (ODA) to least developed countries as a group (there are no targets for individual least developed countries) restated their commitment to meet the 0.15 per cent target expeditiously. Donor countries that had already met the 0.15 per cent target also undertook to reach the 0.20 per cent target expeditiously. In addition, the Brussels Declaration and Programme of Action undertook to implement a recommendation made by member States of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) on untying ODA to least developed countries.

31. The second half of the 1990s witnessed a decline in bilateral ODA flows to all but eight least developed countries (see table 2). Net ODA receipts by least developed countries as a whole had fallen by almost 30 per cent between 1995 and 2000, although this trend was reversed at the beginning of the present decade, as total ODA receipts in 2002 recovered to 1995 levels (in current United States dollars). In information previously provided to the Secretariat (see para. 4 above), several donor Governments noted that least developed country status was just one of the many factors that had determined their levels of development assistance and that graduation would have no direct effect on the provision of such assistance to an individual country. One country stated that graduated countries would no longer be entitled to the ODA targets agreed upon in the Brussels Declaration and Programme of Action for the Least Developed Countries for the Decade 2001-2010. Others indicated that the least developed country category was not specifically recognized for bilateral development aid purposes. One country stressed that decisions on levels of ODA to graduated countries would be made on a case-by-case basis, taking into account poverty levels and environmental vulnerability. Another reply pointed out that graduated countries would continue to receive financial assistance for the promotion of private sector expansion and investment instruments.

²⁵ The full text of the World Trade Organization Trade Policy Review Mechanism is available at http://www.wto.org/english/docs_e/legal_e/29-tpm_e.htm (accessed 15 July 2004).

²⁶ Adopted by the Third United Nations Conference on the Least Developed Countries, held in Brussels from 14 to 20 May 2001, and endorsed by General Assembly resolution 55/279 of 12 July 2001.

Table 2
Official development assistance to least developed countries, 1990-2002
(Millions of United States dollars)

<i>Aid recipient country</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Afghanistan	137	215	141	408	1 285
Angola	270	418	307	289	421
Bangladesh	2 047	1 280	1 171	1 030	913
Benin	271	282	239	274	220
Bhutan	48	74	53	61	73
Burkina Faso	336	488	336	392	473
Burundi	266	289	93	137	172
Cambodia	42	567	398	420	487
Cape Verde	111	117	94	77	92
Central African Republic	244	168	75	67	60
Chad	308	239	131	187	233
Comoros	46	44	19	27	32
Democratic Republic of the Congo	897	196	184	263	807
Djibouti	195	106	71	58	78
Equatorial Guinea	63	34	21	13	20
Eritrea	^a	150	176	281	230
Ethiopia	1 021	888	693	1 116	1 307
Gambia	91	48	49	54	61
Guinea	297	416	153	280	250
Guinea-Bissau	132	117	80	59	59
Haiti	173	731	208	171	156
Kiribati	21	15	18	12	21
Lao People's Democratic Republic	152	313	282	245	278
Lesotho	139	115	37	56	76
Liberia	112	123	68	39	52
Madagascar	386	303	322	366	373
Malawi	481	434	446	404	377
Maldives	22	56	19	25	27
Mali	468	546	360	354	472
Mauritania	229	231	212	268	355
Mozambique	996	1 101	877	933	2 058
Myanmar	166	152	107	127	121
Nepal	430	436	390	394	365
Niger	391	274	211	257	298
Rwanda	294	712	322	299	356
Samoa	48	43	27	43	38
Sao Tome and Principe	56	84	35	38	26

<i>Aid recipient country</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Senegal	795	671	423	413	449
Sierra Leone	65	207	182	345	353
Solomon Islands	45	47	68	59	26
Somalia	494	191	104	150	194
Sudan	827	236	225	185	351
Tanzania, United Republic of	1 147	882	1 022	1 271	1 233
Timor-Leste	"	"	233	195	220
Togo	241	193	70	44	51
Tuvalu	5	8	4	10	12
Uganda	553	831	819	793	638
Vanuatu	50	46	46	32	28
Yemen	407	175	265	461	584
Zambia	486	2 035	795	349	641
Total	16 501	17 327	12 681	13 831	17 502

Source: UN/DESA, based on Organization for Economic Cooperation and Development, *Development Cooperation* (Paris, various years).

* Data unavailable.

32. With regard to untied aid, there are also indications that donor responses to graduation may differ. One of the replies stressed that graduated countries would no longer be entitled to untied aid. Another country stated, however, that the decision to untie aid to least developed countries had removed least developed country access to its tied aid programme and that, as a result, a separate least developed country fund had been created to compensate for this loss. It also emphasized that graduated countries would be automatically entitled to its tied aid programme.

2. Multilateral assistance

33. The allocation of concessionary financing to developing countries by regional and multilateral banks is generally based on the World Bank's classification of low-income countries that are considered to lack creditworthiness for non-concessionary financing. Concessionary financing from the International Development Association (IDA) is granted to all countries below a certain threshold of per capita income. Since there is no special benefit available to a least developed country per se, graduation from the least developed country category is not relevant to a country's access to the concessionary financing facilities of the World Bank Group, notably IDA, nor to those of other major multilateral development partners. However, there is an exception for small island countries: these countries are considered to lack creditworthiness and are thus eligible for IDA funding even if they exceed the per capita income threshold for eligibility.²⁷

²⁷ See IDA, *New Options for IDA Lending Terms* (Washington, D.C., IDA, September 2001).

D. Technical cooperation

1. Bilateral assistance

34. Information provided by most bilateral development partners on their likely response to graduation made no specific reference to technical cooperation, although a few partners implied that graduation from the list of least developed countries would have no impact on their technical assistance to such countries.²⁸

2. Multilateral assistance

35. The Integrated Framework (IF) for Trade-related Technical Assistance to least developed countries — jointly managed by the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the International Monetary Fund (IMF), the World Trade Organization and the International Trade Centre UNCTAD/WTO (ITC) — was established specifically to assist least developed countries in their trade activities, including strengthening of human and institutional capacities. However, the Integrated Framework Working Group and the Integrated Framework Steering Committee have decided that the Integrated Framework will continue to apply in the case of Maldives, regardless of the outcome of the decision on possible graduation.

36. Several organizations of the United Nations system give particular attention to the development challenges of least developed countries through specifically targeted technical cooperation programmes or by earmarking a proportion of their budgets for least developed countries. For example, the revised target for resource allocation from the core UNDP budget for the period 2004-2007 stipulates that between 60 and 62 per cent of that budget should be allocated to least developed countries.²⁹

37. Other forms of assistance for least developed countries include the financial support provided by the United Nations for the participation of representatives of least developed countries in annual sessions of the General Assembly.³⁰ In addition, contributions of least developed countries to the regular budget of the United Nations are capped at 0.01 per cent of the Organization's budget, regardless of their national income and other factors determining a Member State's assessment rate.

II. General principles for the preparation of a smooth transition strategy

38. Graduation reflects, inter alia, a country's success, with the support of bilateral and multilateral development partners, in its development and in its ability to achieve a transformation of its economy. Support by development partners for an adequate period is likely to be critical for the continued future development of

²⁸ See *Official Records of the Economic and Social Council, 2002, Supplement No. 13 (E/2002/33)*, annex I.

²⁹ See UNDP, "Issues and principles for possible improvements in the present arrangements for programming financing" (document DP/2001/CRP.10), 23 April 2001.

³⁰ See, also, the report of the Secretary-General on the participation of the least developed countries at the annual substantive sessions of the Economic and Social Council (A/58/532), 24 October 2003.

graduated countries. A sudden withdrawal of support to a graduated country by its bilateral and multilateral development partners could possibly have adverse effects, interrupting or reversing some of the development progress achieved. At the same time, given that graduation is likely to present different countries with different challenges, **generic smooth transition strategies should be flexible and formulated in a general manner, so as to enable individual strategies to be attuned to different country circumstances.**

39. The identification of two periods of transition for countries graduating from the least developed country category can be traced back to General Assembly resolution 46/206 of 20 December 1991. At its twenty-seventh session, the (former) Committee for Development Planning had proposed that a country would be graduated from the list if it exceeded the criteria for three years.³¹ Reacting to the Committee's report, the Assembly, in paragraph 5 of its resolution 46/206, stated that the graduation of a country would be completed following a transition period of three years starting immediately after the Assembly had taken note of the Committee's finding to graduate that country. The Assembly, in paragraph 4 of the same resolution, invited the international community to ensure a smooth transition but it did not specify whether this would occur before or after graduation.

40. In paragraph 7 of resolution 46/206, the General Assembly had decided that Botswana's graduation would be completed following a transition period of three years. Botswana graduated in 1994 when a second consecutive triennial review had confirmed its eligibility for graduation. The background suggests that Assembly resolution 46/206 was referring to a "pre-graduation" transition period of three years between two consecutive triennial reviews.

41. On the other hand, the Economic and Social Council in its resolution 2000/34 of 28 July 2000, in referring to the consequences of graduation, requested the Secretary-General, in the context of the recommendation to graduate Maldives, to make recommendations on additional measures that could be taken to ensure a smooth transition. This suggests that the Council was referring to a "post-graduation" transition.³² Most of the attention of the Council (and hence of the Committee) in this area in the meantime has been focused on the loss of benefits that a least developed country might incur if it was to graduate; the focus, in other words, has been on the post-graduation transition.

42. This legislative background suggests two distinct "transition periods". The first is the three-year period between the triennial review of the list of least developed countries that initially finds a country eligible for graduation and the subsequent triennial review when its qualification for graduation is again reviewed by the Committee. This is now generally referred to as a "pre-graduation transition period". The "post-graduation transition period", on the other hand, begins when the General Assembly endorses a recommendation made by the Economic and Social Council to graduate a country from the least developed country category, on the basis of its having qualified for graduation in two consecutive triennial reviews. **The post-graduation period required to ensure a smooth transition of the graduated**

³¹ See *Official Records of the Economic and Social Council, 1991, Supplement No. 11 (E/1991/32)*, table 4, note on "Graduation rule".

³² For an elaboration of this point, see *Official Records of the Economic and Social Council, 2001, Supplement No. 13 (E/2001/33)*, paras. 114-117.

country should be decided on a case-by-case basis inasmuch as graduation is likely to present different countries with different challenges.

43. Although the pre-graduation transition period has up to now been regarded primarily as a period in which eligibility for graduation is validated, it is increasingly recognized that it should be utilized by the Government and its development partners to formulate and implement measures at both the national and international levels so as to prepare a least developed country for its possible graduation and for the possible loss of benefits that might occur if the Economic and Social Council and the General Assembly confirm, as a result of the second review, that it should graduate.

44. Henceforth, the vulnerability profile of the country, which is required to facilitate the second review of eligibility for graduation, should include an in-depth analysis of the benefits received by the country as a least developed country, an assessment of the potential loss of benefits resulting from graduation, and possible measures to prepare the country for smooth transition if it is found to qualify for graduation after the second consecutive triennial review. The Committee for Development Policy at its sixth session recommended that profiles of this nature be prepared by UNCTAD, in cooperation with the Government of the least developed country concerned.³³ The Government of the least developed country may also wish to consult with its development partners to consider measures required to prepare the country for the possibility of graduation three years later.

45. Upon graduation, it is recommended that an ad hoc country advisory group should be established by the Government and supported, if requested, by the United Nations Resident Coordinator. This group would be a country-level nationally owned process. The country's bilateral and multilateral development and trading partners should also be encouraged to participate actively in the advisory group. This advisory group and its working arrangements should be based on existing national arrangements for formulating development policy and undertaking development cooperation within the country, such as Poverty Reduction Strategy Papers (PRSPs), donor "round tables" and the United Nations Development Assistance Framework (UNDAF).

46. This advisory group should devise a smooth post-graduation transition strategy in which the graduated country, in cooperation with its bilateral and multilateral development partners, would identify benefits in the areas of trade-related preferences, development finance and technical cooperation that should be considered to ensure that its development progress would not be interrupted or reversed. Similarly, the advisory group should determine the period required for a smooth transition for the country in question in each of these areas; it is possible, therefore, that different periods of smooth transition would apply for different types of existing least developed country benefits that are to be phased out. Where appropriate, the advisory group should also contribute to monitoring the process and, if necessary, suggest additional measures as the transition evolves.

47. While the success of smooth transition strategies will depend on the cooperation between the least developed country and the international community,

³³ Ibid., 2004, Supplement No. 13 (E/2004/33), chaps. I and IV.

the graduated least developed country itself should play the central role in the formulation and implementation of its transition strategies. The success of individual transition strategies will depend on country ownership of the whole process, including both the formulation and the implementation of the country strategy.

48. At the same time, the effectiveness of country advisory groups will depend on the establishment of a framework of genuine partnership between the graduated country and its development partners, in order to determine a feasible mix of the support required by the graduated country and the support that partners are able to provide. With regard to the latter, **it is recommended that the Economic and Social Council urge all development partners that currently provide benefits specifically for least developed countries — notably organizations of the United Nations system, international financial institutions, donor countries, trading partners and member States of the World Trade Organization — to facilitate the transition by avoiding an abrupt reduction in the provision of assistance and support to graduated countries.**

III. Possible elements for a smooth transition strategy

49. A smooth transition strategy for graduated least developed countries would thus involve identifying existing benefits that are desirable for a graduated country so that its development prospects will not be adversely affected. Although graduation may involve a reduction of some benefits, **it is recommended that partners remain open to the retention, if deemed necessary, of some concessions for an appropriate period of time, which would be adapted to the needs of the graduated country. It is essential that the reduction of existing benefits over the transition period be gradual so as to ensure that the graduated country builds on the commendable progress that was reflected in its graduation.**

50. Many of the benefits and treatment accorded to least developed countries are associated with commitments and obligations they undertake as members, or when they become members, of the World Trade Organization. These commitments and obligations are decided by the World Trade Organization at the intergovernmental level. The Economic and Social Council has no legislative authority with regard to these commitments and obligations, but it can invite members of the World Trade Organization to consider any of the following recommendations should the Council find them to be appropriate.

A. Preferential market access

1. General schemes

51. The formulation of a smooth transition strategy with regard to preferential market access would require decisions by individual trading partners — frequently in the framework of the World Trade Organization — on the extension of least developed country-type preferential market access to graduated least developed countries. Upon graduation, least developed country preferences would continue to apply only if one of the following two scenarios was observed: preference-giving countries could receive a waiver from the General Council of the World Trade

Organization to be able to continue to grant least developed country preferences to the graduated countries or decide to extend least developed country-equivalent treatment to non-least developed country beneficiaries.

52. It would still be possible for trading partners — individually or collectively (as in the case of the EU) — to establish a transition period for graduated least developed countries that would enable them to retain more advantageous preferential treatment under GSP/GSTP schemes than under those granted to other developing countries for a given transition period. The EU, for example, has indicated that it would be open to a gradual, rather than instantaneous, phasing out of EBA preferences to graduated least developed countries.³⁴ At the same time, it should be noted that, as concluded in a World Trade Organization Trade Policy Review of Maldives, “graduation represents a necessary first step in the country’s economic transition” and “continued overdependence on unilateral preferences may retard the economy’s export diversification, and encourage inefficient industries, like tuna canning, whose products are only competitive in EU with large tariff preferences”.³⁵

53. **From a smooth transition perspective, the granting of waivers regarding the continuation of preferences should ideally be considered on the basis of a product-specific analysis of the need for continued market access for each country that graduates from the least developed country category.** This may, however, involve complicated and time-consuming procedures.

2. Textiles and clothing

54. **Restraint in making use of transitional safeguards, particularly by major development partners, could be just as important to textile exporters after graduation as it was before graduation.** However, the potential loss of benefits in this sector will no longer pose a problem to graduated least developed countries after the abolition of the Agreement on Textiles and Clothing in January 2005.

B. Special treatment regarding World Trade Organization-related obligations

55. The formulation of a smooth transition strategy with regard to the implementation of World Trade Organization agreements in the eight trade-related areas identified above — other than preferential market access — would require agreement within the World Trade Organization on exemptions or special consideration for graduated least developed country members.

³⁴ See letter from EU, dated 21 June 2004, available from <http://www.un.org/esa/analysis/devplan/index.html>. This would involve granting a better preferential access to one developing country (the graduated least developed country), which would not be extended to other developing countries. The possibility of differentiating among developing countries in the context of preferential schemes was the subject matter of a recent decision by the Appellate Body in the case “European Communities: conditions for the granting of tariff preferences to developing countries”, where some of the provisions of the World Trade Organization “Enabling Clause for developing countries” were interpreted (see World Trade Organization document WT/DS246/AB/R of 7 April 2004). The Appellate Body concluded in one of its findings that, provided certain conditions were met, developed countries might — in responding to the needs of developing countries — treat different developing-country beneficiaries differently.

³⁵ WT/TPR/S/110 of 13 December 2002, p. x, para. 32.

56. Many developing countries, even the more advanced ones, encounter difficulties in implementing World Trade Organization-related commitments and obligations. Despite the progress reflected in their graduation, former least developed countries will continue to be among those facing the greatest difficulties in this regard. As a general measure, it is recommended that the Economic and Social Council urge World Trade Organization member States to consider granting at least some of the existing least developed country special treatment to graduated least developed countries for a transition period on a case-by-case basis. It is further recommended that the above-mentioned advisory group determine the period required for a smooth transition for the country in question in each of the trade-related areas below. It must be understood, however, that any changes in existing World Trade Organization provisions would need a consensus among World Trade Organization members.

1. Accession to the World Trade Organization

57. The experience of the first two least developed countries that have completed the accession process since the creation of the World Trade Organization shows that it can be onerous for least developed countries that lack the human resources and technical capabilities required to negotiate their accession.³⁶ Graduated countries are likely to continue to face difficulties in this regard. Therefore, as part of a smooth transition strategy, least developed country treatment regarding accession should be maintained for graduated countries. In addition, graduated least developed countries should not be obliged to make commitments beyond their level of economic development, human and institutional capacity, and trade and financial needs.

2. Sanitary and phytosanitary measures

58. As mentioned above, the provisions of the Agreement on the Application of Sanitary and Phytosanitary Measures allowing for delays in the application of the Agreement by least developed countries have elapsed. In the light of the guidelines adopted by the General Council regarding the accession of least developed countries, it is recommended that, like least developed country acceding members, graduated least developed countries that join the World Trade Organization be granted transition periods regarding the formulation and application of their own sanitary or phytosanitary measures. In addition, World Trade Organization members should take account, as they are required to do in the case of least developed countries, of the particular difficulties encountered in a transition period by graduated least developed countries in complying with the sanitary or phytosanitary measures of importing World Trade Organization members.

3. Technical barriers to trade

59. The capacity of a graduated least developed country to meet the requirements that are associated with technical barriers to trade may remain weak in the short-to-medium term for reasons relating to limitations in human, institutional and

³⁶ See, for example, R. Adhikari and N. Dahal, *LDCs' Accession to the WTO: Learning from the Cases of Nepal, Cambodia and Vanuatu* (Kathmandu, South Asia Watch on Trade, Economics and Environment (SAWTEE), 2003).

technological capacities. It is thus recommended that graduated least developed countries be treated with the same special consideration given to least developed country members of the World Trade Organization with regard to both the provision of technical assistance by other World Trade Organization members and the granting for a transition period of exemptions from obligations under the Agreement on Technical Barriers to Trade by the WTO Committee on Technical Barriers to Trade.

4. Subsidies and countervailing measures

60. The positive developmental impact of export subsidies can be critical to countries where such measures, if financially possible, constitute a response to serious structural disadvantages. It is thus recommended that graduated least developed countries that lack export competitiveness be granted an exemption from the prohibition on export subsidies or granted a longer transition period to phase out such subsidies than that granted to other developing-country members of the World Trade Organization.

5. Trade in services

61. It is recommended that graduated least developed countries be treated with the same special consideration given to least developed country members of the World Trade Organization, with regard to both the acceptance of negotiated specific commitments and support for their telecommunications sector, for a transition period. In addition, in the field of international tourism, which is important for several potential least developed country graduates, there is a need to underline, in General Agreement on Trade in Services-related negotiations, the importance of developing local human resources in graduated least developed countries as a key local linkage that can guarantee a significant income-multiplying effect.

6. Trade-related aspects of intellectual property rights (TRIPS)

62. Given their institutional limitations, it is recommended that least developed country-equivalent treatment be extended to graduated countries, particularly those with very small economies, to enable them to benefit from an additional transition period for the implementation of the Agreement on Trade-related Aspects of Intellectual Property Rights.

7. Settlement of disputes

63. A graduated country is unlikely to become a threat to international trade or to have the institutional and financial capacity to deal with a trade-related dispute soon after graduation. The need for continued "due restraint" is therefore not likely to diminish after graduation. For this reason, it is recommended that this special treatment of least developed countries be maintained for a transition period.

8. Trade policy review mechanism

64. It is recommended that the special treatment regarding periodic trade policy reviews, as well as the provision of technical assistance by the World Trade Organization Secretariat in undertaking the review, be maintained after graduation.

C. Development financing

1. Bilateral assistance

65. Bearing in mind that least developed country status is only one of the many factors that determine the levels of development assistance by bilateral donors, available information suggests that graduation would have a limited direct effect on the provision of such assistance. At the same time, it is generally accepted that the developmental costs to a graduated country of a sudden disruption in flows of ODA could be high, whereas the costs to bilateral and multilateral development partners of at least maintaining such flows are likely to be negligible. **It is thus recommended that the Economic and Social Council urge all development partners to avoid any abrupt reductions in ODA provided to graduated countries for a transition period to be determined by the country advisory group.**

2. Multilateral assistance

66. Since graduation from the least developed country category will not affect a country's eligibility for financing from IDA and other major multilateral funding institutions, no specific transition measures are currently required with regard to the continued provision of multilateral development financing for graduated least developed countries. This is particularly the case for small island States which are, as an exception, eligible for IDA funding even if they exceed the per capita income threshold for eligibility. **It is recommended that this exception be maintained.**

D. Technical cooperation

1. Bilateral assistance

67. While available information suggests that graduation from the least developed countries category would have little or no impact on the provision of bilateral technical assistance, **it is recommended that no abrupt reduction of existing assistance take place for a transition period.**

2. Multilateral assistance

68. **It is recommended that the implementation of technical assistance programmes under the Integrated Framework for Trade-related Technical Assistance be continued for any country that graduates from the least developed country category.**

IV. Concluding remarks

69. The success of a smooth transition strategy will depend on the cooperation between graduated least developed countries and the international community. However, as with all development strategies, **the graduated least developed countries themselves should play the central role in the formulation and implementation of their smooth transition strategy and should ensure that the strategy is attuned to national conditions and circumstances.**

70. The Economic and Social Council is invited to recommend the convening of an ad hoc country advisory group in which the graduated country, in cooperation with its bilateral and multilateral development partners, would identify measures to ensure its smooth transition from the least developed country category so that its development progress would be maintained.
71. At the same time, the continued support of development partners is critical to ensuring success in the implementation of smooth transition strategies for graduated least developed countries. The continuation of ODA to a graduated country could play a critical role in its smooth transition, while the provision of adequate technical assistance — by both bilateral and multilateral development partners — to graduated countries is important so as to ensure a smooth transition.
72. Furthermore, given that the World Trade Organization provisions granting special and differential treatment to least developed countries constitute a multilateral instrument outside the purview of both the Economic and Social Council and the General Assembly, World Trade Organization member States should take the initiative to ensure that graduated countries continue to benefit from least developed country trade preferences for a transition period after graduation. The Council may thus wish to call upon World Trade Organization member States to support and facilitate the formulation and implementation of measures required to ensure the smooth transition of graduated countries in trade-related areas.
73. While a smooth transition strategy is essential to maintaining the development progress of the graduated country, graduation should signal to private and public partners that a durable improvement has occurred, thereby opening new and promising economic opportunities. Graduation should also signal a reduced level of risk for foreign direct investment and increase credit ratings for access to private development finance. The international community is encouraged to strengthen efforts to foster private sector development in, and to increase credit guarantees for, graduated countries. As noted above, graduation is also a necessary first step in a country's economic transition to a more advanced stage of development. Graduated countries should be congratulated on their past success and supported in the further improvement in their socio-economic conditions in the years ahead.